



A Report
to the
Board of
Supervisors

Maricopa County
Internal Audit
Department

Ross L. Tate
County Auditor

County Attorney's Office

*Payroll Controls Over Time and
Attendance Need Improvement*

July ■ 2010

Executive Summary	1
Introduction	2
Payroll Processing	5
Loan Repayment Assistance	9
Victim Compensation	11
County Attorney's Response	14

The mission of Maricopa County is to provide regional leadership and fiscally responsible, necessary public services so that residents can enjoy living in a healthy and safe community.

The mission of the Internal Audit Department is to provide objective information on the County's system of internal controls to the Board of Supervisors so they can make informed decisions and protect the interests of County citizens.

The County Auditor reports directly to the Maricopa County Board of Supervisors, with an advisory reporting relationship to the Citizen's Audit Advisory Committee.

Audit Team Members

Richard Chard, CPA, CLEA, Deputy County Auditor
Carla Harris, CPA, CIA, CFE, Audit Supervisor
Kimmie Wong, MPA, CLEA, Senior Auditor
Derek Barber, CIA, CGAP, CLEA, Associate Auditor

Maricopa County Internal Audit
301 West Jefferson, Suite 660
Phoenix, AZ 85003
(602) 506-1585

www.maricopa.gov/internal_audit

"Do the Right Things Right!"



Maricopa County

Internal Audit Department

301 West Jefferson St
Suite 660
Phx, AZ 85003-2148
Phone: 602-506-1585
Fax: 602-506-8957
www.maricopa.gov

July 21, 2010

Don Stapley, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Andrew Kunasek, Supervisor, District III
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We completed our fiscal year (FY) 2010 review of the Maricopa County Attorney's Office. This audit focused on selected areas within the County Attorney's Office and was performed in accordance with the annual audit plan approved by the Board of Supervisors. The specific areas reviewed were selected through a formal risk-assessment process.

Highlights of this report include the following:

- Payroll controls over time and attendance reporting are weak
- Controls over the Loan Repayment Assistance (attorney student loans) and Victim Compensation programs are adequate

Within this report, you will find an executive summary, specific information on the areas reviewed, and the County Attorney's response to our recommendations. We have reviewed this information with the County Attorney's Office. If you have any questions, or wish to discuss the information presented in this report, please contact Richard Chard at 506-7539.

Sincerely,

A handwritten signature in dark ink that reads "Ross L. Tate".

Ross L. Tate
County Auditor

Executive Summary

Payroll Processing (Page 5)

MCAO has not established essential controls over time and attendance reporting to ensure the propriety of payroll disbursements. We identified a high rate of corrections going back as far as 18 months, as well as an overall lack of oversight. Weak controls over time and attendance increase the risk of fraud, abuse, and improper payments. MCAO should establish and enforce written policies and procedures that provide reasonable assurance that information is (1) recorded accurately and promptly, (2) properly authorized and approved, and (3) in compliance with legal requirements.

Attorney Loan Repayment Assistance Program (Page 9)

MCAO has established adequate controls over the Loan Repayment Assistance Program, which provides student loan assistance to eligible attorneys employed by Maricopa County. However, in some cases, documentation accepted as proof of payment did not contain a sufficient level of detail, increasing the risk of improper disbursements. MCAO should require that documentation submitted as proof of payment on student loans be sufficiently detailed to allow for verification.

Victim Compensation (Page 11)

MCAO has established adequate controls over the Victim Compensation program. However, in some cases, staff had not performed the required verification to determine that the victim was not delinquent in paying certain fines or restitution, which increases the risk of improper disbursements. MCAO should make a compensation award only if it determines that the victim was not convicted of a state crime and delinquent in paying a fine, monetary penalty, or restitution imposed for the crime, as required by program Rules.

Introduction

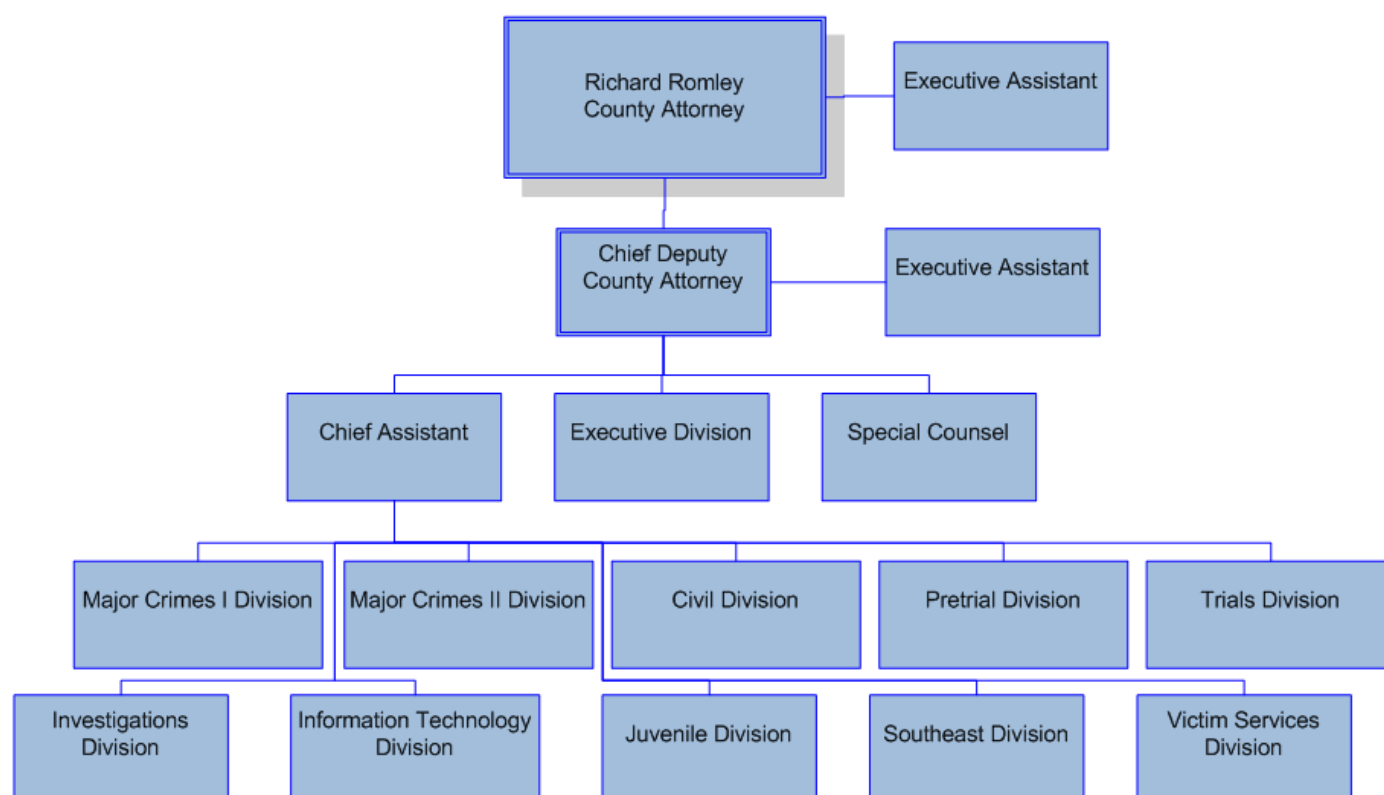
Background

The Maricopa County Attorney is an elected official whose office is responsible for prosecuting all felonies that occur within Maricopa County and all misdemeanors that occur in unincorporated areas of the County. The Arizona State Constitution (Article 12, Section 3) provides the County Attorney's operational authority, while the Arizona Revised Statutes (§§ 11-531 to 11-539), describes the roles, powers, and duties.

At audit inception, Andrew Thomas was the County Attorney. In April 2010, Mr. Thomas resigned to run for Arizona State Attorney General. The Maricopa County Board of Supervisors (BOS) appointed Richard M. Romley as Interim County Attorney. Mr. Romley will hold this position until the special election in the fall of 2010, when Maricopa County citizens will elect the next County Attorney.

Organizational Structure

The Maricopa County Attorney's Office (MCAO) had 973 authorized positions as of July 1, 2009. MCAO consists of 10 primary divisions, as shown below.

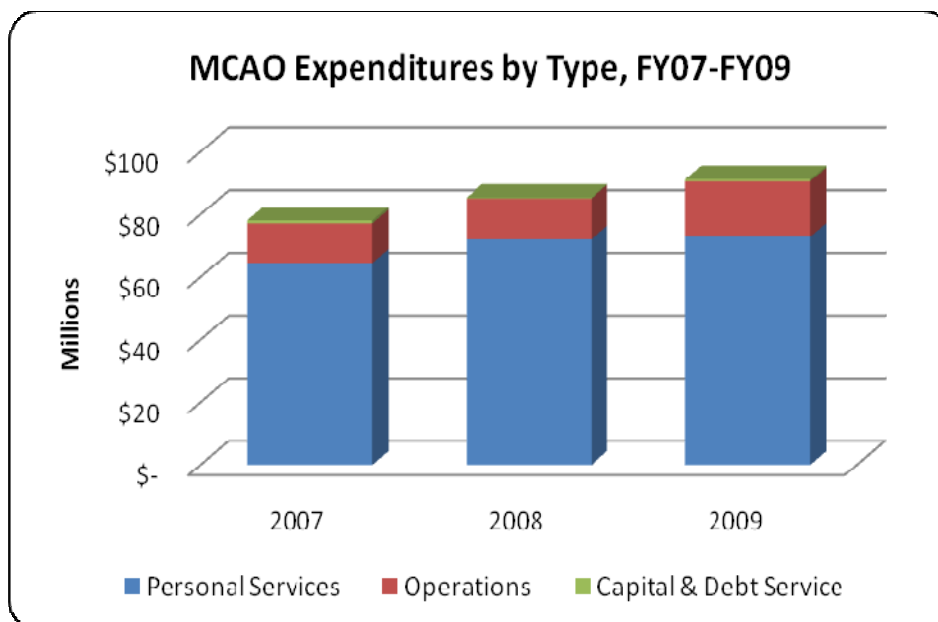


Source: Maricopa County Attorney's Office

The Civil Division operates as a full service law firm, representing County agencies in certain legal matters. All references to MCAO in this report are inclusive of the Civil Division, although it became a separate budgetary entity in FY09. A separate General Litigation Department was established by the BOS in March 2009, and is outside the scope of this review.

Operating Budget

MCAO expenditures increased 17% from FY07 to FY09, from \$78.1 million to \$91.2 million, respectively. Personal Services (payroll and employee-related expenditures) comprised 80% of the total in FY09, as shown below.



Source: Advantage Financial System

Scope and Methodology

Objectives and Scope

The objectives of this audit were to determine if:

- Payroll and employee-related expenditures (ERE) are in compliance with applicable laws, regulations, and County policies, and resources are properly safeguarded
- Expenditures made under the Crime Victim Compensation Program are in compliance with applicable laws, regulations, and County policies

To satisfy the payroll objective, we interviewed key personnel, reviewed personnel files, examined timekeeping practices, and reviewed relevant standards on payroll risks and controls. We reviewed a sample of payroll transactions from June 2009 to determine the propriety of disbursements (i.e., pay rates, hours worked, overtime, employee reimbursements, and leave hours, accrual rates and balances). We also reviewed a sample of payroll transactions from February and May 2009 to determine propriety of adjustments. Additionally, we reviewed Central Payroll reports for adjustments to pay rates (FY09) and leave balances (as of March

2010) to determine propriety. We also reviewed a sample of employee reimbursements under the attorney Loan Repayment Assistance Program from FY07 (inception of the program) through FY09.

For the Crime Victim Compensation Program, we reviewed (1) Arizona Administrative Code Rules, (2) FY09 Victim Compensation claims, and (3) supporting documentation. We also interviewed key personnel and performed analytical procedures.

Scope Limitations

MCAO management was advised that our scope would also include the areas listed below. However, access was denied for the reasons shown. We plan to review these areas in a future audit.

Description	MCAO Reason for Denying Access
Legal Services and contract-related expenditures	Potential for compromising pending litigation between County management and MCAO.
Racketeer Influenced and Corrupt Organization (RICO) expenditures	<p>Sensitive nature of RICO information, the disclosure of which could endanger lives and jeopardize ongoing investigations.</p> <p>MCAO also cited a 2009 Auditor General's Office audit that found no significant deficiencies. However, based on the audit report, that review was more limited than would be necessary to give an opinion on internal controls.</p>

Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Issue 1 Payroll Processing

Summary

MCAO has not established essential controls over time and attendance reporting to ensure the propriety of payroll disbursements. We identified a high rate of corrections going back as far as 18 months, as well as an overall lack of oversight. Weak controls over time and attendance increase the risk of fraud, abuse, and improper payments. MCAO should establish and enforce written policies and procedures that provide reasonable assurance that information is (1) recorded accurately and promptly, (2) properly authorized and approved, and (3) in compliance with legal requirements.

Criteria

- U.S. Department of Labor (29 CFR 516.2), Federal Labor Standards Act (FLSA)
- U.S. General Accounting Office (GAO- 3-352G), Maintaining Effective Control over Employee Time and Attendance Reporting
- State of Arizona Auditor General, Uniform Accounting Manual for Arizona Counties
- Maricopa County Leave Plan

Condition

Overview

MCAO payroll and employee-related expenditures (ERE) totaled \$72.9 million in FY09, representing 80% of total expenditures. These large costs highlight the importance of a strong internal control environment. Our audit focused on determining the adequacy of payroll controls at the agency level. Countywide payroll operations performed by Central Payroll were outside the scope of our review.

Overall, audit results indicate that controls over the processing and reporting of various payroll transactions, and the maintenance of payroll records, are adequate. Payroll amounts appear to be accurately calculated, recorded, and disbursed. However, MCAO has not established adequate controls over time and attendance reporting, increasing the risk of fraud, abuse, and improper payments.

Controls over time and attendance reporting should provide reasonable assurance that information is (1) recorded accurately and promptly, (2) properly authorized and approved, and (3) in compliance with legal requirements. To establish a strong control environment, management should establish clear policies and procedures, communicate these broadly, and enforce them. We identified the following significant weaknesses, as detailed below.

- 1) Information is not recorded accurately and promptly
- 2) Transactions are not properly authorized and approved
- 3) Information is not sufficiently detailed to allow for verification

Control Weakness #1 - Information is not recorded accurately and promptly

Control: Time and attendance information should be recorded accurately and promptly. Information may be recorded by the employee, timekeeper, or supervisor. The person recording the information should acknowledge responsibility for the propriety of the information, and management should have controls in place that provide reasonable assurance that the recorded information accurately reflects time worked, leave taken, or other absences. Adjustments or corrections should be properly approved and processed promptly.

Condition: There is no reliable system in place to ensure the accuracy of time and attendance records, and thus, the propriety of payroll disbursements. One payroll coordinator and a part-time assistant (1.5 FTE) are responsible for entering and approving time and attendance on the PeopleSoft payroll system for all MCAO employees (973 approved positions for FY10). Time is entered on an exception basis, meaning that employees are assumed to have worked their regular schedule unless a leave slip is submitted. Employees do not complete timesheets or affirm attendance records, although 53% of the workforce is classified as non-exempt (i.e., paid hourly).

As stated, management relies solely on the submission of leave slips to ensure that absences are properly recorded. However, (1) leave slips are not submitted properly or promptly, and (2) there is no effective review to ensure that reported leave has been properly recorded. In addition, MCAO timekeepers have no direct knowledge of hours worked by the employees whose time they are tasked with inputting and approving. While there is no way to determine the amount of leave that has gone unreported, if any, these weaknesses increase the risk of fraud, abuse, and improper payments.

We reviewed a sample of transactions from five pay periods in FY09. We identified a high rate of corrections to time and attendance records, as detailed below.

- One employee was paid \$767 for 28 hours not worked. An adjustment was processed in the following pay period. Based on employment records, the employee's last day of work was February 13, 2009; however, she received regular pay through February 19, 2009, followed by vacation and sick pay through March 22, 2009. The employee was then placed on leave without pay until her termination date of May 8, 2009. (Pay period ending February 22, 2009)
- One correction goes back 18 months to revise 90 hours of regular time to vacation time. Other corrections went back up to three months to revise 44.5 hours of regular time to vacation, sick, and bereavement time for four employees. (Pay period ending May 31, 2009)
- Corrections go back four months to revise 177.5 hours of regular time to vacation, sick, and leave without pay for eight employees. In one case, an employee who did not have enough sick leave was improperly paid \$340 for 12 hours. The adjustment (leave without pay) was processed two months later. (Pay period ending February 8, 2009)
- Corrections go back three months to revise 25.5 hours of regular time to vacation time for three employees. (Pay period ending May 17, 2009)
- Corrections go back four and one half weeks to revise 178 hours of regular time to sick leave (FMLA). (Pay period ending June 14, 2009)

Control Weakness #2 - Transactions are not properly authorized and approved

Control: Supervisory approval is a key part of ensuring the accuracy of time and attendance records. Review and approval should be made by the immediate supervisor most knowledgeable of the time worked by employees. Such approval should signify that information is accurate and complete, and in accordance with applicable legal requirements. Management should reemphasize the importance of this responsibility as needed. In addition, time and attendance information should be approved as close to the end of the pay period as possible to ensure accuracy.

Condition: Time and attendance information is not reviewed and approved by a supervisor, or any other employee with direct knowledge of actual hours worked by employees. While supervisors and division chiefs approve leave slips, there is no system in place to ensure the accuracy and completeness of information input into the payroll system. Accuracy of data entry is reviewed only by the employee responsible for inputting the data. There is no effective secondary review or reconciliation of payroll/time and attendance information. While a payroll systems report is generated and given to a second employee for sign-off, that employee does not determine the accuracy or completeness of the data entered for all employees.

Control Weakness #3 - Information is not sufficiently detailed to allow for verification

Control: The Fair Labor Standards Act (FLSA) includes very specific recordkeeping requirements for non-exempt employees. FLSA is the federal law that sets minimum wage, overtime pay, recordkeeping, and child labor standards for both employers and employees covered by FLSA. Employees whose jobs are covered by FLSA are either “exempt” or “non-exempt.” Non-exempt employees are generally paid hourly and are entitled to overtime pay. (Exempt employees are not.) As a covered employer, Maricopa County is required to maintain certain records for non-exempt employees, including but not limited to the following:

- Time and day of week when employee’s workweek begins
- Hours worked each day
- Total hours worked each workweek

FLSA requires no particular form for the records, but does require that the records include certain identifying information about the employee and data about the hours worked and wages earned. The law requires this information to be accurate and complete.

In addition, according to the State of Arizona Auditor General’s Uniform Accounting Manual for Arizona Counties, all non-exempt hourly employees should be required to prepare time summaries each pay period. Time summaries should be signed by the employees, approved by a supervisor, and retained to support payroll expenditures. These procedures may be performed electronically.

Condition: There is no system in place to allow for the proper verification of time and attendance records. Employees do not complete timesheets or affirm hours worked, although 53% of the workforce is non-exempt and paid hourly. As a result, management has no assurance that wages are paid only for hours worked or that time and attendance information is accurate and complete, as required by law.

Effect

Due to weak controls over time and attendance reporting, management has no assurance that payroll and related time and attendance information is reliable, increasing the risk of fraud, abuse, and improper payments.

Cause

MCAO management has not established essential payroll controls over time and attendance reporting.

Recommendation

MCAO should establish and enforce written policies and procedures over payroll operations, setting forth the responsibilities of employees, timekeepers, and supervisors to provide reasonable assurance that information is (1) recorded accurately and promptly, (2) properly authorized and approved, and (3) in compliance with legal requirements.

Issue 2 Loan Repayment Assistance

Summary

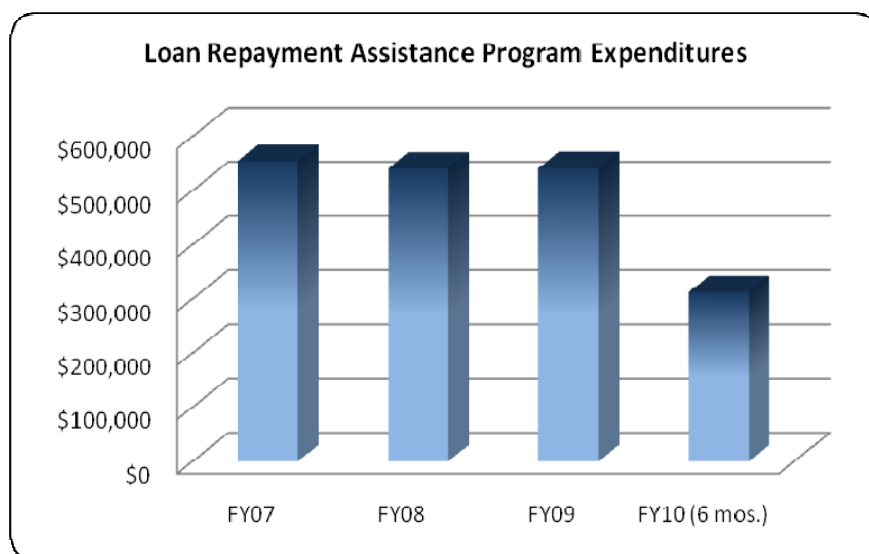
MCAO has established adequate controls over the Loan Repayment Assistance Program, which provides student loan assistance to eligible attorneys employed by Maricopa County. However, in some cases, documentation accepted as proof of payment did not contain a sufficient level of detail, increasing the risk of improper disbursements. MCAO should require that documentation submitted as proof of payment on student loans be sufficiently detailed to allow for verification.

Criteria

Maricopa County Loan Repayment Assistance Program (LRAP) Policy

Condition

The purpose of the LRAP is to provide retention incentives for attorneys who work for Maricopa County and to provide a recruitment tool to assist Maricopa County to better compete for talented legal professionals. Since the inception of the program in FY07, \$1,949,812 has been disbursed to 171 attorneys for student loan reimbursement. Expenditures by fiscal year are shown below.



Source: PeopleSoft Payroll System

Attorney Student Loan Reimbursements Average \$546,000 Annually

In FY09, \$541,523 was disbursed to 109 employees. We reviewed a total of \$141,298 in disbursements (26%) to 20 employees (18%). We designed our testing to determine if eligibility criteria were met and reimbursement documentation was consistent with program requirements. Tests performed and related findings are outlined in the following table.

Test #	Test Description	Compliance Rate
1	Adequate proof of payment	16/20 (80%)
2	Employed for at least 24 consecutive months	20/20 (100%)
3	Last annual evaluation was at least “meets expectations”	20/20 (100%)
4	National Student Loan Database System (NSLDS) report matched employee name	20/20 (100%)
5	NSLDS principal balances matched application	20/20 (100%)
6	Quarterly reimbursement cap not exceeded	20/20 (100%)
7	Aggregate reimbursement cap not exceeded	20/20 (100%)
8	Request for reimbursement submitted within required timeframes	20/20 (100%)

MCAO implemented several controls to help ensure employees meet eligibility requirements, including the following:

- Employees submit a program application, which must be accompanied by loan verification documents to prove the loans and related balances exist
- The program coordinator reviews the application, along with supporting documentation
- Employees submit a Quarterly Reimbursement Request application, along with proof of payment for the eligible quarter

However, documentation accepted as proof of payment is not always sufficiently detailed to allow for verification. For one employee, the Quarterly Reimbursement Request was accompanied only by copies of the employee’s canceled checks payable to “Wachovia,” with no proof that the payment was actually for a student loan debt. In several other cases, the proof of payment did not contain any identifying information. For instance, some Sallie Mae receipts did not reference account numbers, employee names, or any other identifying information.

Effect

Approving loan repayment reimbursements based on inadequate documentation could result in improper disbursements to employees.

Cause

Failure to ensure that documentation submitted as proof of payment is sufficiently detailed to allow for verification.

Recommendation

MCAO should require that documentation submitted as proof of payment on student loans be sufficiently detailed to allow for verification.

Issue 3 Victim Compensation

Summary

MCAO has established adequate controls over the Victim Compensation program. However, in some cases staff had not performed the required verification to determine that the victim was not delinquent in paying certain fines or restitution, which increases the risk of improper disbursements. MCAO should make a compensation award only if it determines that the victim was not convicted of a state crime and delinquent in paying a fine, monetary penalty, or restitution imposed for the crime, as required by program Rules.

Criteria

Victim Compensation Rules, Arizona Administrative Code (AAC), Title 10, Chapter 4, Article 1 (Authority: A.R.S. §§ 41-2407 and 41-2402)

Condition

We sampled 25 of 466 (5%) case files for individuals receiving Victim Compensation benefits in FY09. Total benefits awarded to all victims in our sample were \$384,000, or 24% of the \$1.6 million expended in FY09. Overall, it appears that controls are adequate to ensure the propriety of program disbursements.

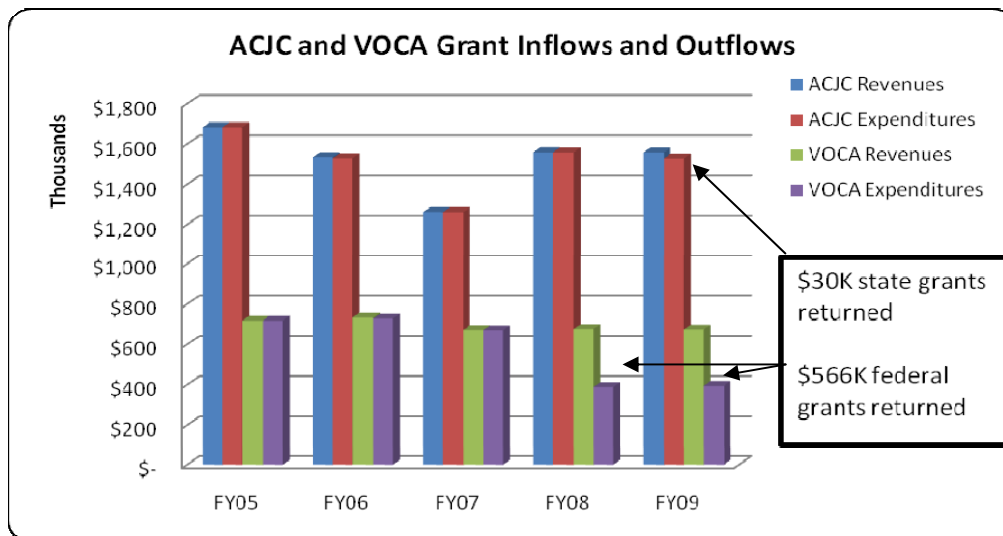
Our testing was designed to determine compliance with the following key provisions delineated in the AAC Rules:

Eligibility Criteria		
Rule	Requirement	Exceptions
R10-4-106	Victim was not convicted of a state crime and delinquent in paying a fine, monetary penalty, or restitution imposed for the crime if the delinquency is identified by Arizona Administrative Office of the Courts or the Clerk of the Superior Court	Nine cases (36%) had no evidence of verification
R10-4-106	Crime occurred in Arizona (or if outside Arizona, in an area without a crime compensation program) and affected a resident	None
R10-4-106	Victim was not the perpetrator, accomplice, or a person who encouraged or participated in the crime	None
R10-4-106	Victim was not serving a sentence of imprisonment in any detention facility, home arrest program, or work furlough at the time of the crime	None

Rule	Requirement	Exceptions
R10-4-106	Victim was not convicted of a federal crime and delinquent in paying a fine, monetary penalty, or restitution imposed for the offense if the U.S. Attorney General and the Director of the Administrative Office of the U.S. Courts have issued a written determination that the entities administering federal victim compensation programs have access to an accurate and efficient criminal debt repayment tracking system	None
R10-4-106	Crime was reported to law enforcement within 72 hours of discovery	None
R10-4-106	Claim was submitted within two years of the crime	None
R10-4-107	Claimant is a (1) victim; (2) derivative victim; (3) person authorized to act on behalf of a victim or deceased victim's dependent; or (4) person who assumed an obligation for or paid an expense directly related to a victim's economic loss	None
R10-4-107	Claim is for one person and one crime only	None
R10-4-107	Victim completed an Application for Crime Victim Compensation	None
R10-4-108	The Rule sets limits on how much can be awarded to a victim by expense type.	None

Grant Funds for Victims Not Used – Returned to Grantor

Each fiscal year, unexpended grant funds must be returned to the grantor. The following chart shows total revenues and expenditures for the state (Arizona Criminal Justice Commission - ACJC) and federal (Victims of Crime Act - VOCA) grants for FY05 - FY09. As shown, MCAO returned \$30,000 to the state and \$566,000 to the federal government for unexpended grant funds. Reversions prior to FY08 were immaterial.



Source: Maricopa County Attorney's Office (unaudited)

\$596,000 in Victim Compensation Grants Unused & Returned to Grantor

The reversion of grant funds was outside the scope of our audit and is included for information purposes only. While unverified, MCAO stated that the reversions could be attributed to the following:

- Higher unemployment rates as a result of the economy (historically, many claims have reportedly been for wage loss and/or loss of support)
- Increased attention on illegal immigration
- Unemployment within offices that the program relies upon for supporting documentation has made it more difficult to efficiently process a claim

Effect

Failure to determine if a victim was convicted of a state crime and delinquent in paying a fine, monetary penalty, or restitution imposed for the crime could result in ineligible disbursements.

Cause

Failure to ensure that all eligibility requirements are met and documented prior to a compensation award being made.

Recommendation

MCAO should make a compensation award only if it determines that the victim was not convicted of a state crime and delinquent in paying a fine, monetary penalty, or restitution imposed for the crime, as required by program Rules.

County Attorney's Office Response

**AUDIT RESPONSE
MARICOPA COUNTY ATTORNEY**

Issue #1: Payroll Processing

MCAO has not established essential controls over time and attendance reporting to ensure the propriety of payroll disbursements.

Recommendation: MCAO should establish and enforce written policies and procedures over payroll operations, setting forth the responsibilities of employees, timekeepers, and supervisors to provide reasonable assurance that information is (1) recorded accurately and promptly, (2) properly authorized and approved, and (3) in compliance with legal requirements.

Response: Concur—in process

MCAO currently follows the Maricopa County Leave Policy. The Office will develop a specific office-wide procedure that establishes deadlines and responsibilities related to submitting leave requests and establishing Family Medical Leave.

Target Completion Date: September 30, 2010

Benefits/Costs:

Issue #2: Loan Repayment Assistance Program

In some cases, documentation accepted as proof of loan payment did not contain a sufficient level of detail, increasing the risk of improper disbursements.

Recommendation: MCAO should require that documentation submitted as proof of payment on student loans be sufficiently detailed to allow for verification.

Response: Concur—completed

MCAO has taken additional steps to ensure that appropriate documentation is submitted to verify the student loan account and payments made. As we receive documentation for quarterly reimbursements that does not include identifying information, we are requesting additional information prior to processing the employee's request.

Target Completion Date: Completed

Benefits/Costs:

Issue #3: Victim Compensation Program

In some cases staff had not performed the required verification prior to disbursing victim compensation to determine that the victim was not delinquent in paying certain fines or restitution, which increases the risk of improper disbursements.

Recommendation : MCAO should make a compensation award only if it determines that the victim was not convicted of a state crime and delinquent in paying a fine, monetary penalty, or restitution imposed for the crime, as required by program Rules.

Response: Concur—completed

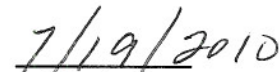
The MCAO Victim Compensation Program has established procedures to print out the delinquent payment verification form from the Arizona Supreme Court website to include in the case file.

Target Completion Date: Completed

Benefits/Costs:

Approved By:


Executive Chief on behalf of
The County Attorney


Date